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C O N F I D E N T I A L SECTION 01 OF 03 SANTO DOMINGO 006564

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TREASURY FOR OASIA/MDM:J. FRANCO
STATE FOR WHA/CAR, PM, EB/IFD/OMA:L. GALLAGHER

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TAGS: [DR](#) [EAID](#) [EFIN](#) [MARR](#)

SUBJECT: DOMINICAN REPUBLIC: TRANSPARENCY OF
BUDGETS/MILITARY SPENDING

REF: STATE 239929

Classified By: DCM Lisa Kubiske. Reason: 1.4 (b) and (d).

[11](#). (SBU) SUMMARY: The Dominican Republic's military budget is determined in the national budget process overseen by the Office of the Budget, resulting in an annual national government budget bill considered and voted by Congress and signed and promulgated by the President. The military budget is subject to audit by civilian authorities and by the audit office of the armed forces. The new president's appointments, his policy of austerity measures and his adamant call for "zero tolerance" for corruption are taken as policy guidelines by the Secretary of the Armed Forces Vadm Sigfrido Pared Perez. Defense expenditures at a reported 0.4 percent of GDP will not be a priority for this administration.

General Overview of Military Budgeting and Spending

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[12](#). (SBU) Government budgeting has achieved limited improvements in transparency over the last five years. In 2003, the government set up an Integrated Financial Management System (SIGF) designed eventually to integrate all budgetary, financial, and public debt management of government spending under the Finance Ministry. Several new draft law proposals are pending in the Congress that should further enhance good governance. These potential laws would address budget, the Treasury, public borrowing, and government procurement.

[13](#). (SBU) The Dominican military's annual 2004 budget was approximately 5.2 billion Dominican pesos (about USD 180 million at current rates). It had sustained minimal growth during the previous 4 years. Its primary function has been, and continues to be, to provide employment for the estimated 42,000 personnel currently on the Armed Forces rolls. Payroll and associated personnel benefits have accounted for the bulk of budget expenditures (between 88 to 91 percent depending on service branch) known locally as *carga fija* (fixed load expenses).

[14](#). (SBU) Budget trends are likely to continue without a reduction in human resources. Despite the military's request for a 2005 budget increase, the defense budget probably will not grow during this administration. Newly elected President Leonel Fernandez has announced plans for general austerity as part of an IMF standby program under negotiation, putting all institutions on notice of short funding until economic conditions improve significantly. Reduction in the number of uniformed personnel is seen as politically difficult, in part because about 30 to 35 percent of the uniformed force is actually employed in civilian government offices or in the private sector, often as private residence guards, chauffeurs, and other personal service assistants. Therefore the remaining discretionary portion of the budget leaves little for operational requirements and acquisition of supplies needed to maintain the Armed Forces. Inflation and the currency fluctuation from early 2003 through mid-2004 have further compounded the erosion of the military's operational capabilities, forcing it to seek off-budget requests to conduct some of its day-to-day operations, delay payment of rations to soldiers, or postpone the payment of other mandated fringe benefits to personnel and materiel suppliers.

[1A](#). General Overview of Auditing Procedures

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[15](#). (SBU) All Dominican institutions are technically subject to audit by the *Camara de Cuentas*, a five-member independent civilian body attached to Congress. The *Camara de Cuentas* reports to the Congress, presenting on the first ordinary legislature of a fiscal year an annual account of expenditures of the previous fiscal year. In early 2004 President Mejia signed and promulgated Public Law 10-04 giving the *Camara de Cuentas* broad authority to look into any public institution's finances. Reports and examinations by the *Camara* are generally considered to be pro forma.

[16](#). (SBU) The "Contraloria General de la Republic" or Dominican General Accounting Office (DGAO) has the authority

to audit any government office or operation and concentrates principally on cases of suspected fraud and abuse. For example, in April 2003 the DGAO delivered an audit of "Plan Renove," a program to support procurement public transport vehicles to be used by transport union members; in November 2004 the Attorney General of the new administration (in office since mid-August) lodged formal charges of fraud and embezzlement against 12 persons. The DGAO is currently auditing the administration of a financing agreement with the U.S. EXIMBANK approved in 2001 in the amount of approximately USD 10 million for the purchase of helicopters for the military. As is the case for all foreign financing to official agencies creating government debt, the contract was approved by both the Senate and House. The military leadership and the responsible office of the Presidency used a generally worded "amendments" clause in the agreement to increase the amount of the loan from USD 10 million to USD 76 million, using certifications from the then presidents of the Senate and House, who did not refer the amended terms of contract to committee or to the full legislature for approval.

17. (SBU) New Comptroller of the Armed Forces Rear Admiral Betances has a clear mandate from the Secretary of the Armed Forces, Vadm Sigfrido Pared Perez. Betances is a formally trained financial manager/accountant who is highly regarded and knowledgeable about the budget submission process. The Comptroller is charged with submitting the services, budgets and tracking their expenditures. He has a team of internal auditors who work for him in the respective branches of the service. They in turn are charged with tracking the expenditures of the respective services. In application of new policies of budgetary restraint, the Comptroller intends to prohibit discretionary purchases for sums that involve more than 2 million Dominican pesos (USD 75,000), subjecting these instead to prior approval from the Presidency and the Secretary of Defense. Service chiefs have in the past had

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the autonomy to seek exterior financing without concurrence from the MOD for such acquisitions or expenditures, provided there was political support for such purchases.

18. (SBU) The Dominican military's budget is formulated annually in September by the respective services, which submit it in October to the Comptroller General of the Armed Forces. The Comptroller's office further compiles and submits the budget to the civilian-staffed Presidential Office of Budget Planning. Negotiations follow before formal submission of the budget authorization and appropriations bill to the Congress in December or early January for approval, presidential signature, and publication in the Official Gazette. While items for military pay and allowances are relatively easy to establish, the operations and maintenance portions of the respective service branch budgets are archaic and, in the case of maintenance and operations expenditures, formulated without verification of the existence or operability of equipment.

19. (C) Military expenditures are not audited on a routine basis, as there are no formal regulatory requirements requiring them or setting schedules for them. Past Comptrollers have only occasionally carried out special audits, and these have generally appeared to be motivated at least in part by political considerations or in-house rivalries -- as in cases when a given commander or staff leader has been targeted for misappropriation of public funds. The results of these audits are not publicly available and weaknesses of the judicial system mean no one to date has been incarcerated or punished severely for abusing the public's trust. Transfer or dismissal from the service are the most severe sanctions employed.

10. (SBU) Treasury exercises ad hoc controls on military spending through the mechanism of the period release of funds to military components. Each service component commander must request allocations or checks for payment, a form of control for the outflows of funds from the Treasury.

11. (SBU) The nerve center for military finances is the office of the Director of Logistics (J-4), which serves more as a paymaster and disbursement office than as an office for logistics planning and policy making. Its director has been at the helm for more than ten years, apparently immune from politics because of his specialized expertise.

1B. The Military Budget and On-Budget and Off-Budget Revenue and Expenses

12. (C) During the last decade, major military equipment acquisitions have not appeared in the military's budget. This changes with the 2005 budget just submitted to Congress, which includes specific line items for acquisition of vessels (two coast guard vessels and reconstruction of six more, for a total of approx USD 5.7 million) and aircraft and associated training (not detailed, for approx USD 23.9 million).

Financing for these acquisitions is identified as coming from "external resources" (loans). Any such transaction creating government indebtedness must be authorized by the executive (in practice, either the Technical Secretary of the Presidency or the Minister of Finance) and approved by vote of both the Senate and the House of Representatives. Justification and planning for such acquisitions has been poor and it is widely believed that intermediaries and approving officials receive under-the-table commissions.

13. (SBU) Off-budget requests are the end-around for resolving budget shortfalls, generally to secure funds for special activities or operational needs. For example, during a two-month troop buildup on the Dominican/Haitian border during the Haitian domestic crisis of the spring 2004, the Presidency provided operational funds from the President's discretionary account, known internally as the \$14018 account. The funding covered for fuel, maintenance and rations. Another example of off-budget financing from other parts of the government was the payment of 2,000 excess Air Force personnel shorted pay due to the service's lack of funds at the end of the fiscal year.

14. (SBU) Military leaders resort to canvassing the private sector for donations when other methods fall short. Historically, vendors and wealthy private sector businessmen who need favors from the military have provided funds for special needs, without the expectation of repayment. One recent example was the return from Iraq of the battalion of 302 Dominican soldiers. The decision was taken abruptly to curtail them by two months from their commitment in order to get them home by the date of the mid-May presidential election. When it became evident that U.S. strategic airlift would not be available in time to meet that deadline, the President persuaded Air Europa, a major operator in Dominican tourism, to fly the troops back from Spain, presumably at no charge.

15. (SBU) Military and Police budgets are independent of one another. Law enforcement efforts and public safety fall under the Secretariat of Interior and Police. Its budget of roughly USD 130 million is completely independent of the military budget.

The Military Component of the National Budget

16. (SBU) As noted above, on-budget military expenditures amount to approximately 0.4 pct of GDP and consist for the most part of a "jobs program" for the 42,000 members of the Armed Forces. The 5.2 billion peso budget represents approximately 6.3 percent of the central government current operating budget of 82 billion, or 4.8 percent of the non-financial public sector budget (current capital expenditure). The fiscal year runs from January 1 to December 31; the administration proposes a budget to Congress, generally in December, for general debate. Both houses must pass the annual Budget Law, which becomes law when it is signed by the President and published in the Official Gazette.

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